

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2022

Docket No. ACR2022

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-7 OF CHAIRMAN'S INFORMATION REQUEST NO. 5**

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 5, issued on January 18, 2023. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. Please refer to the Postal Service's withdrawal of a proposed rule related to Caller Service—Customized Address, published in the *Federal Register* on January 12, 2023.¹
 - a. Please discuss the Postal Service's reasoning for withdrawing the proposed rule. Please include information related to the "concerns expressed by members of the mailing community during the proposed rule comment period" as well as any other factors that contributed to the Postal Service's decision to withdraw the proposed rule. See 88 Fed. Reg. 2047.
 - b. In Docket No. R2022-1, the Commission approved the Postal Service's proposed addition of the new Caller Service—Customized Address price category, which has been added to the Mail Classification Schedule (MCS).² Please provide the Postal Service's plans to address the addition of the MCS language pertaining to Caller Service-Customized Addressed that was approved in Order No. 6188.

RESPONSE:

a. As indicated, the Postal Service withdrew the proposed rule related to Caller Service – Customized Address published in the Federal Register on January 12, 2023 primarily as a result of "concerns expressed by members of the mailing community during the proposed rule comment period." Several comments indicated that the proposed rule change would severely impact the remittance mailing community. Comments also indicated that these changes could result in financial hardships, disrupt operational efficiency, as well as potentially accelerate First-Class Mail diversion. Based on this feedback, it was determined to withdraw the proposed rule at this time.

¹ Postal Service Caller Service—Customized Address, 88 Fed. Reg. 2046 (Jan. 12, 2023), available at <https://www.govinfo.gov/content/pkg/FR-2023-01-12/pdf/2023-00433.pdf>.

² Docket No. R2022-1, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, May 27, 2022, at 102-05, Attachment at 85 (Order No. 6188); Postal Regulatory Commission, Mail Classification Schedule (MCS), October 3, 2021 (with revisions through October 31, 2022), § 1520.2, available at <http://www.prc.gov/mail-classification-schedule>.

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b. As a result of withdrawing this request, the Postal Service plans to remove Caller Service – Customized Address from the Mail Classification Schedule (MCS) in an upcoming Market Dominant Rate adjustment.

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2. Please refer to the Postal Service's discussion of Media Mail/Library Mail in the FY 2022 ACR. FY 2022 ACR at 43-44.
- a. Please discuss in detail the drivers behind unit costs increasing by \$0.22 in FY 2022 for Media Mail/Library Mail.
 - b. Please describe any plans the Postal Service has to review Media Mail/Library Mail's costs and any steps it intends to take in order to reduce the product's costs in FY 2023 or future years.

RESPONSE:

- a. In FY 2022, Media Mail/Library Mail unit costs increased by 22.3 cents (5.1 percent), driven by increasing transportation and window service costs. Media Mail/Library Mail unit transportation costs rose by 32.0 cents (23.4 percent) in FY 2022 compared to the previous fiscal year. This increase can primarily be attributed to two distinct factors. One, a recently approved methodological change³ Proposal Six introduced TRACS-based highway peak season distribution keys to the transportation cost model; significantly increased transportation unit costs for Media Mail/Library Mail were an expected impact of this proposal.⁴ Two, pounds of mail flown for Media Mail/Library Mail in FY 2022 increased by 55.4 percent despite a ten percent decline in total weight in comparison to the previous fiscal year. The increased air transportation for Media Mail/Library Mail is most prominent in quarter four. The shift in weight from surface transportation to more costly air transportation likely further contributed to

³ See Docket No. RM2022-13, Proposal Six, Order No. 6322 (November 3, 2022).

⁴ *Id.* Petition Proposal Six at 9, (FY 2022 Q1 unit cost \$1.99 vs. \$1.52).

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the unit transportation cost increase for Media Mail/Library Mail experienced in FY 2022.

Unit window service costs also increased by 2.9 cents (16.8 percent). Two factors illustrate this increase in unit window activity costs. One, window clerk wage rates rose by 4.5 percent (\$45.06 per hour vs. \$43.11). Two, the number of overall window transactions continued its secular decline, likely caused by the availability and convenience of alternative induction options for some products, which bypass window transactions. Revenue transactions specifically declined by 12.1 percent in FY 2022 compared to the previous fiscal year. The overall decline in window transactions results in higher unit window service costs for those products, including Media Mail/Library Mail, that are not available through certain alternative channels, such as Click-N-Ship.

- b. The Postal Service is responding to this question assuming *ceteris paribus* because consistent inflationary pressure results in higher labor and transportation costs that make a long-term reduction in nominal unit costs difficult. Nonetheless, the Postal Service regularly reviews product costs and aims to increase efficiencies when feasible. In FY 2022, 44.1 percent of Media Mail/Library Mail unit costs were related to mail processing and 36.4 percent were related to the transportation function. Thus, over eighty percent of the costs for Media Mail/Library Mail are from processing and transportation. In July 2022, the Postal Service initiated a program to shift some originating mail from the Network Distribution Center (NDC) to the local Processing & Distribution Center

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that is expected to expand to include Media Mail/Library Mail and Bound Printed Matter.

In July 2022, the Postal Service implemented a program to shift the processing of Retail Ground packages to the local Processing & Distribution Center instead of the NDC. This simplified processing by keeping the volume in-house and merging the product with the First-Class network. Plans are in place to eventually expand this initiative to include processing all Media Mail/Library Mail and Bound Printed Matter at the local Processing & Distribution Center together with First-Class Package Service (FCPS). This initiative will be implemented through a phased migration scheduled to be finalized by the end of FY 2023 Q3. This change in mail flow fits in with the Postal Service's broader strategy of shape-based processing, whereby products of the same shape are processed together as opposed to being processed separately by class. This is expected to increase consistency and service performance and achieve economies of scale.⁵

Achievement of economies of scale and scope should result in more efficient processing and better utilization of surface transportation that may reduce costs.

Furthermore, the cost coverage for Media Mail/Library Mail has increased from its recent nadir of 71.5 percent in FY 2019 to 91.2 percent in FY 2022, and contribution improved by \$75 M to negative \$39 M over that same period. The cost coverage and contribution increases were achieved with a 31 percent increase in unit revenue coupled with a 6 percent decrease in unit costs.

While inflationary pressure makes long-term nominal reduction in unit costs difficult, it is not unreasonable to believe that future price increases coupled with the

⁵ See USPS-FY22-29, Service Performance Report at 27.

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implementation of the operational initiative described in this response would result in higher cost coverage and contribution for Media Mail/Library Mail hereafter.

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3. In Response to CHIR No. 1, question 1, which requested the “Quarter 4, FY 2022 service standards for all Origin 3-Digit ZIP Code and Destination 3-Digit ZIP Code pairs,” the Postal Service provided Excel file “ACR22_Q1 - MD SS 3D Pair.xlsx.”⁶ This file contains 850,950 unique Origin and Destination 3-Digit ZIP Code pairs. This file also contains 915 unique Origin 3-Digit ZIP Codes. In Response to CHIR No. 1, question 2, which requested the “average daily volume of First-Class Mail for each 3-Digit O/D pair for FY 2022,” the Postal Service provided Excel file “ACR22_ChIR1_Q2-FCMVol.xlsx.” This file contains 451,863 unique Origin and Destination 3-Digit ZIP Code pairs. This file also contains 646 unique Origin 3-Digit ZIP Codes.
- a. Please explain why the service standards Excel file “ACR22_Q1 - MD SS 3D Pair.xlsx” contains 269 more instances of unique Origin 3-Digit ZIP Codes as compared with the average daily volume Excel file “ACR22_ChIR1_Q2-FCMVol.xlsx.”
 - b. The following table contains 269 3-Digit ZIP Codes. For each of these, there is a service standard for mail destinating in the same (Origin) 3-Digit ZIP Code (*i.e.*, “turnaround” mail) in Excel file “ACR22_Q1 - MD SS 3D Pair.xlsx,” but no corresponding volume in Excel file “ACR22_ChIR1_Q2-FCMVol.xlsx.” Please discuss whether each of these “turnaround” O/D pairs had an average daily volume of 0 for FY 2022.

3-Digit O/D pairs not included in “ACR22_ChIR1_Q2-FCMVol.xlsx”													
5	79	133	204	259	332	413	506	609	692	772	829	878	948
6	81	137	205	261	346	415	508	615	703	779	830	879	961
8	83	138	209	262	347	416	509	635	713	780	831	880	967
25	84	141	215	263	349	417	510	636	714	783	835	882	978
28	89	149	221	265	351	418	516	639	716	788	836	884	979
36	100	154	222	266	357	424	526	644	717	789	842	885	990
39	102	155	227	268	363	426	542	648	728	792	844	889	994
41	104	157	230	270	364	433	555	649	733	793	845	893	996
45	107	158	232	273	367	434	556	664	736	795	847	894	999
46	108	162	239	279	369	438	567	668	738	798	851	898	
48	110	163	247	289	375	439	572	669	739	807	855	901	
51	111	164	248	291	378	444	575	670	746	812	856	903	
52	116	167	249	297	390	455	576	674	747	813	859	915	
55	121	169	250	298	391	457	584	675	755	814	860	916	
58	123	179	251	308	393	459	586	677	758	821	865	919	
59	124	181	252	311	399	470	592	678	759	822	873	936	
65	126	192	254	315	404	476	593	679	762	823	874	938	
72	127	198	255	316	408	487	595	686	766	824	875	942	
73	128	202	256	318	409	491	607	689	768	825	876	943	

⁶ Responses of the United States Postal Service to Questions 1-6 of Chairman's Information Request No. 1, January 10, 2023 (Response to CHIR No. 1).

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- c. Excel file "ACR22_ChIR1_Q2-FCMVol.xlsx" contains First-Class Single Piece letter volume of 22,767,447 for "Two-Day" and 14,230,536 for "Three-To-Five-Day." Please confirm that there were 302 operating days in the year in FY 2022 for a total First-Class Single Piece volume of $((22,767,447 + 14,230,536) * 302) = 11,173,390,949$. If not confirmed, please explain.

RESPONSE:

- a. The service standards Excel file "ACR22_Q1 - MD SS 3D Pair.xlsx" contains 269 more instances of unique Origin 3-Digit ZIP Codes as compared with the average daily volume Excel file "ACR22_ChIR1_Q2-FCMVol.xlsx," because mail is not entered at facilities in every 3-Digit ZIP Code. This makes the actual number of Origin 3-Digit ZIP Codes in Excel file "ACR22_ChIR1_Q2-FCMVol.xlsx" less than the number of Origin 3-Digit ZIP Codes in Excel file "ACR22_Q1 - MD SS 3D Pair.xlsx".
- b. These "turnaround" O/D pairs had an average daily volume of 0 for FY 2022 because mail is not entered at facilities in every 3-Digit ZIP Code. Therefore, it is not possible to measure "turnaround" volumes for those 3-Digit ZIP Codes where mail is not entered.
- c. 11,173,390,949 is not confirmed as the total volume for FY 2022. In the Excel file "ACR22_ChIR1_Q2-FCMVol.xlsx," the average daily volume was calculated as follows: For each O/D pair for each service standard, class and shape, the number of total pieces for FY 2022 was divided by the number of days in which volume was available. Since the denominator used to calculate the average daily volume for each O/D pair was not uniformly 302 (the maximum number of

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operating days) because volume was not always available for all 302 days, using 302 as an expansion factor to be applied to the sum of those average daily volumes generates an overstated estimate of annual volume.

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4. In response to Order No. 6198, Library Reference USPS-FY22-29, Excel file "24 hr clock FY 2022.xlsx" contains information on "Site-Specific Operating Plans (SSOP) performance results."⁷ In previous years, the performance results related to the national operational goal contained information on the time of day that operations were occurring. For example, in FY 2021, the national goal for the letters cancellation operation was "Clearance by 2000."⁸
- a. Please provide the range of clearance time targets across the SSOPs for FY 2022, by operation. If this information is not available, please explain.
 - b. Please provide five example SSOPs for facilities with non-standard operating plans with details on each operation. If this information is not available, please explain.
 - c. Please provide the SSOP for the facility with the highest percentage achievement of target in FY 2022. If this information is not available, please explain.
 - d. Please provide the SSOP for the facility with the lowest percentage achievement of target in FY 2022. If this information is not available, please explain.

RESPONSE:

- a. Please see the table below:

⁷ Docket No. ACR2021, Order Granting Motion of the United States Postal Service Requesting Clarification of Certain ACD Directives, June 16, 2022, at 4 (Order No. 6198); Library Reference USPS-FY22-29, folder "Other domestic FCM data directives," Excel file "24 hr clock FY 2022.xlsx," December 29, 2022.

⁸ See Docket No. ACR2021, Library Reference USPS-FY21-29, Excel file "FY21 FCM Q4 24 hr clock.xlsx," December 29, 2021.

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Op Plan Type	Grouping	* Minimum	* Maximum
Packages	Auto Sorter INP	23:00	07:00
Packages	Auto Sorter OGP	22:30	06:15
Packages	Auto Sorter OGS	22:30	06:15
Packages	Manual INP	23:00	07:00
Packages	Manual OGP	20:30	06:45
Packages	Mech Sorter INP	01:30	06:15
Packages	Mech Sorter OGP	23:30	04:45
Letters & Flats	Letter Cancellations	21:15	02:45
Letters & Flats	Letter OGP	21:30	03:00
Letters & Flats	Letter OGS	23:00	03:00
Letters & Flats	Flat OGP	21:30	04:00
Letters & Flats	Flat OGS	21:30	03:30
Letters & Flats	Letter DPS2	01:30	07:00
Letters & Flats	Flat AFSM CR	23:30	07:30
Letters & Flats	FSS	04:00	07:00

* References are to operational days, which begin at 07:00 and end at 07:00 the following calendar day.

- b. This question asks for examples of “non-standard” site-specific operating plans (SSOPs); it must be noted, however, that all SSOPs are non-standard as each facility creates its own operating plan. The requested SSOP examples are produced in an Excel spreadsheet filed under seal as part of USPS-FY22-NP35.
- c. Please refer to the Excel spreadsheet filed under seal as part of USPS-FY22-NP35 for the SSOP of the facility with the highest target achievement in the nation.
- d. Please refer to the Excel spreadsheet filed under seal as part of USPS-FY22-NP35 for the SSOP of the facility with the lowest target achievement in the nation.

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5. Please refer to the Preface to Library Reference USPS-FY22-NP27, December 29, 2022, wherein the Postal Service provides a list of categories of interagency agreements pursuant to 39 U.S.C. §§ 3704-3705.⁹ For each category of interagency agreement listed, please provide copies of each specific agreement with another Government agency that was active during FY 2022. For each specific agreement, this should include the identity of the other Government agency with which the agreement was made and the specific terms of the agreement, including its execution date, implementation date, and expiration date. It should also include the rate(s) charged for the service.¹⁰ Please also provide copies of any subsequent revisions or amendments to any such agreements.

RESPONSE:

Available copies of specific agreements that were active in FY 2022 for each category are provided under seal as part of USPS-FY22-NP35. A summary Excel file is also provided to consolidate agreement-specific information on the items identified in the third and fourth sentences of the question, as well as to facilitate navigation through the substantial amount of agreement material included in pdf format. Note that for certain categories with a large number of individual agreements (e.g., Lease Agreements), in the limited time available to respond to this request, it was not possible to gather a complete set of agreement documents. The agreements for which copies were not available, however, are unlikely to differ in any material respect from the large number of very similar agreements in the same category for which copies are provided, and are thus unlikely to pose any significant impediment to the Commission's overall

⁹ Library Reference USPS-FY-NP27, file "USPS_FY22_NP27_Preface.pdf," at 5.

¹⁰ See 39 U.S.C. § 3705(a)(1) (the Postal Service shall report on "costs, revenues, [and] rates" (emphasis added)).

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understanding of the nature and scope of the agreements in that category. In contrast, costs and revenues from *all* agreements in each category were included in the figures already provided in USPS-FY22-NP27, and for which further documentation is provided in response to Questions 6 and 7 of this Information Request.

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6. For each interagency agreement, in addition to providing the rates charged for the service, please provide the volume used to determine the reported revenue in Library Reference USPS-FY22-NP27.

RESPONSE:

Compared with postal services, particularly mail services, the concept of “volume” can be much more nebulous when applied to the type of services covered by the IAA information reflected in USPS-FY22-NP27. To the extent that “transactions” or similar units are relevant to either reported revenues or reported costs, however, those units are shown in the appropriate places in the spreadsheet provided under seal in USPS-FY22-NP35 in response to question 7 of this Information Request.

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7. For each interagency agreement, please provide the underlying cost models or calculations that support the costs reported in the Preface to Library Reference USPS-FY22-NP27.

RESPONSE:

The cost models and calculations that support the costs reported in the Preface to USPS-FY22-NP27 are provided in an Excel file submitted under seal as part of USPS-FY22-NP35.